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Interprovincial Economic Co-operation

Towards the Development
of a Canadian Common Market

HON. LARRY GROSSMAN
Minister of Industry and Tourism



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Proposals for Interprovincial
Economic Co-operation and for the
Establishment of a Canadian
Domestic Market Development
Agency

January, 1981
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Foreword

In the fall of 1979, the Ontario government renewed a dialogue on the establishment of a more effective domestic market to develop our country's industries and create jobs for Canadians.

This dialogue, centred around what has come to be known as the Canadian Common Market, has taken place during a turbulent and, at times, troubled year.

Throughout that year, the concept has been evaluated, studied and refined. While the goal of establishing a truly unified economic whole has seemed difficult to achieve, it has at the same time become even more relevant.

The Ontario government believes it is important to the continuation of this dialogue that we stand back from time to time to assess various points of view, to propose new mechanisms through which we can accomplish our mutual goals, and to clarify the various options open to us.

This paper attempts to do just that. It offers an update on the arguments in favour of a Canadian Common Market, provides additional information and proposes new mechanisms.

We hope, too, that it will serve to clarify our objectives. We do not seek the dismantling of all local, provincial or regional barriers and strategies, for such a course would be both careless and counterproductive.

What we do seek is an identification of common interests — the marshalling of both our consumer market and our capital-projects markets. Equally, we seek the creative development of new opportunities with a concomitant undertaking to secure those opportunities for Canadian as opposed to foreign businesses.

We seek, as well, a better understanding among governments — an understanding of individual economic strategies and ways in which we can grow and build together. The provinces of Canada must complement and catalyze each other's growth rather than fragmenting each other's strengths.

If this paper serves only to move the discussion one step farther — to bring to the national dialogue new ideas, or cause new ideas to be formulated — then it will have played a small but useful role.

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1

Introduction

Interprovincial Trade

The provinces and regions of Canada have become so preoccupied with the issues that divide us, we have forgotten or ignored the things that unite us.

We all too often forget that the political partners within Confederation are also important economic partners.

Ontario is the biggest market for the manufacturing enterprises in other parts of this country. We purchase more than half of all interprovincial shipments originating in the rest of Canada.

Equally, almost one-quarter of Ontario's manufactured goods — estimated at about \$13 billion worth — is sold into the other parts of Canada.

Twenty-one per cent of Quebec's manufactured goods is sold into the other parts of Canada.

Twenty-three per cent of the products manufactured on the Prairies is sold into the other parts of Canada.

Nineteen per cent of the total manufacturing output of the Atlantic provinces is sold into the other parts of Canada.

And fifteen per cent of British Columbia's manufacturing output is sold into the other parts of Canada.

To give some sense of the magnitude and importance of our economic relationships within this country, the value of Ontario's sales of manufactured products to the Maritimes each year is twice as big as the value of our total sales of manufactured products to the entire European economic community, including Great Britain.

And our sales to the Prairies alone are 30 times as great as our sales of manufactured goods to Japan.

Despite the magnitude of our economic interdependence it appears as though we have chosen to frustrate what could be a strong national economic system. In fact, Canada's ambassador to the European Economic Community has stated "that there are now fewer barriers to trade among the countries of Europe than among the provinces of Canada."

However, the "barriers to trade" issue is really only symptomatic of a broader and perhaps more important problem: that is, the lack of co-ordinated regional economic development strategies.

In fact, it is the development of competitive rather than complementary regional economic development strategies that is threatening the very economic frame-work that is necessary to sustain us as a nation.

If we are to renew our federal system and create a strong national economy then the major task facing all governments is to develop programs, policies, and mechanisms that enhance the economic development prospects of each province while fostering economic co-operation and co-ordination.

Common Market

If we are to succeed in our quest for a strengthened nation and a renewed Canada then we must in fact begin by making a commitment and a conscientious

decision not only to rework constitutional arrangements but to build solid economic relations among the regions of Canada.

We need a new set of economic and political relationships that can accommodate our existing strengths across this country — in the Maritimes, in Quebec, in Ontario, and in the West — in such a way that we reinforce each other in a genuine partnership that creates a stronger and more united whole.

But the problem has been that in recent years the traditional economic links between the Canadian provinces have been eroding.

And it is that erosion of economic links that could, if not reversed, threaten our very survival as a nation.

The disturbing fact is that in recent years strengthened provincial governments, equipped with new measures of fiscal freedom and widespread regulatory authority, have sought to redress their traditional grievances by erecting interprovincial barriers to trade and by implementing unco-ordinated and noncomplementary regional economic development strategies.

The danger of this is clear: as we become less important to each other economically, we will become less important to each other politically and socially.

As we work to rebuild our constitution, to re fashion the ways in which the provinces and regions of Canada deal together and with the federal government, it is critically important for us to begin to reverse the trend toward greater barriers between the regions of Canada, toward increasing balkanization of what is, by world standards, an already small domestic market.

We firmly believe that the existence of a strong economic confederation, providing all provinces and regions of Canada with the benefits of the Canadian Common Market, is, in the long term, one of the foundations of a strong and unified political confederation.

Barriers to Trade*

Canada has become so balkanized and so fragmented that we now have situations in which seven provincial governments have adopted narrow, province-first procurement policies. And two governments have actually imposed tendering restrictions inhibiting access to provincial contracts for Canadian suppliers outside their province.

- Newfoundland has been restricted from exporting Labrador power to U.S. markets through Quebec because Quebec has held Newfoundland to an old agreement.
- Alberta's Petroleum Marketing Commission has excluded Ontario-based Petrosar from its list of approved purchasers.
- British Columbia applies a 10 per cent preference for government purchasing in favor of local suppliers while giving Canadian

**Barriers to trade and manpower and procurement policies are dealt with in Economic Realities of Contemporary Confederation by Maxwell and Pestieau, C.D. Howe Research Institute.*

suppliers outside the province only a marginal advantage over foreign competitors.

- Quebec has developed tendering restrictions that preclude non-Quebec companies from bidding on most government contracts.
- Some provincial governments require trucks delivering loads into the province to return empty, so they cannot compete with trucking firms within the province.
- Alberta has developed an industrial permit system that ensures the greatest possible Alberta content in the megaprojects.
- Under the Crow's Nest Pass agreement extended by the Railway Act of 1925, it costs more to export processed grain products from Western Canada than unprocessed products of equal bulk. This has created an historically strong feeling in the West that the structure of freight rates inhibits export of manufactured goods from the region and impedes industrial development.

Barriers to Manpower

In addition to these types of impediments to trade we have recently seen new barriers to manpower mobility that effectively restrict Canadians from moving within their own country.

- Quebec has barred an estimated 3,000 eastern Ontario construction workers from working on Quebec construction projects through its permit system;
- Newfoundland has established a registry of workers giving Newfoundlanders first preference on jobs associated with offshore oil exploration;
- Quebec mineral exploration permits require that employment preference be given to Quebec laborers and mining engineers;
- Professionals and tradesmen are forced to pass tests and licensing procedures when they move from province to province in Canada;
- And, finally, the province of Nova Scotia introduced a bill in its legislature that would enshrine the principle of giving first priority for civil service jobs to Nova Scotians.

Provinces, however, should not be overly criticized for using their own public-sector purchasing power to support the development of their own economies.

The truth is that we have done the same in Ontario from time to time. There have been cases where we, too, have chosen to buy from an Ontario manufacturer over another Canadian manufacturer, even when the firm in the other province offered the most competitive price or terms. That kind of

reaction has occurred in every part of this country. But we are far from comfortable with it, and we do not believe that, in the long term, it is an acceptable policy for Ontario — or for Canada. It gives short term economic stimulus, but encourages further fragmentation and invites retaliation.

The fact is that we are all going to have to make adjustments if we are to reverse the tide of balkanization and keep the country intact.

Economic Co-operation

Ontario is not asking that provinces either individually or collectively agree to drop all barriers.

What we are suggesting is a series of initiatives, programs, and policies designed to make most barriers obsolete.

We believe that if the provinces, together with the federal government, can agree now to take initial pragmatic steps towards the development of economic co-operation, then provinces will begin to drop their respective barriers because each will perceive such a move to be in its own long-term self-interest.

All regions can achieve the kind of economic growth and diversification they want — but only by working together.

The European nations have recognized that they must co-operate through the Common Market if they are to be competitive. If the EEC can combine nine separate nations with different languages, culture, histories, and national aspirations into one unified economic whole, then surely we can do the same with our 10 provinces — jurisdictions that share a heritage, culture, governmental institutions, and common aspirations.

We have a clear choice: We can, at this critical time in our history as a nation, continue to balkanize our country's economy, or we can develop a unified Canadian Common Market, with combined interests, shared objectives, and mutually beneficial goals.

We can use our differing strengths as a basis for building a strong Canadian whole. Or we can restructure the individual units, failing in the end to ensure a firm foundation upon which we can develop and strengthen as a nation.

Economic Diversification

How do we go about developing a Canadian Common Market?

We have to begin by acknowledging that the economic relations we have had within Canada are no longer satisfactory.

The western provinces have made it clear that they are no longer content to be a passive market for products manufactured in central Canada.

Based on their resource wealth, western Canadians are determined to build strong and diversified economies in their region of the country.

Eastern Canadians are by no means satisfied with the status quo either.

After having suffered through many years of federal efforts that tried to build industrial monuments in places too distant from markets and resources to survive, the Atlantic provinces now find themselves on the threshold of their own resource boom as the world's leading fish exporters and as the main beneficiaries of potentially huge oil and natural gas deposits off the coasts of Newfoundland and Nova Scotia.

Central Canada, for its part, must recognize that the diversification and wealth created in the other regions of Canada will, in the end, benefit all of Canada.

While no one would suggest it is going to be easy, we can start from one basic truth: there is no inherent conflict between maintaining and strengthening the kinds of manufacturing industries that have developed in Ontario and a gradual diversification of the economies of the other parts of Canada.

The reality is that there will be movement to other provinces. That movement will not be to the West, *per se*, but to where new projects are emerging — where there is new development. It would make no sense for us as a province, or as part of this nation, to try to prevent the movement of capital and labor to its current and natural market. Mobility is a fundamental strength of free societies and nations.

Equally, it would make no sense for the other provinces to attempt to lure our basic manufacturing industries — industries that have developed here for a variety of reasons and very few of which are, today, really linked to the tariff. Those industries have developed in Ontario, reflecting our proximity to the U.S. market and to the relatively strong markets of central and eastern Canada.

We believe that our existing manufacturing capability in Ontario can be key to the efforts of other regions of Canada to diversify by maximizing the economic benefits of resource developments.

For example, the major population centres of Ontario and Quebec could supply the East and the West with the necessary markets to support the development of their own specialized manufacturing industries.

This has been a key element of the Canadian Common Market theme. The message we have attempted to convey is this: a Canadian Common Market does not imply the total dismantling of provincial strategies put in place to achieve provincial goals.

We are not arguing against regional economic development. Each province has the right — and the obligation — to assess its own economy and develop appropriate economic strategies to meet its objectives.

But too often these strategies result in fragmentation, interprovincial barriers, restriction of markets, and limitations on long-term national development.

If we are to succeed in establishing a fully developed and internationally competitive Canadian economy — an economy in which each region can realize its economic potential — then surely we must find ways to complement each other's development strategies.

Some First Steps

It is vital that all Canadians, especially Ontarians, demonstrate by our actions that we are valuable and contributing partners for our sister provinces in reaching their economic objectives, as well as in serving our own interests.

We bring to this process Canada's biggest single market, a market that can be critical to the ability of industries elsewhere in this country to become established, to survive, and to grow.

And if the kind of co-operation we are hoping to achieve is in Ontario's self-interest, we believe that we can show that it is also in the direct self-interest of every other part of this country.

We have already been working in very practical ways to demonstrate our commitment to balanced economic co-operation within Canada by taking a number of unilateral actions to help ensure that companies in other provinces have realistic access to the Ontario market, just as we hope our companies will begin increasingly to have access to markets in other regions of this country.

These are some of the steps we have already taken:

- We have an explicit policy of offering a 10-per-cent price preference — not just for Ontarian content but for Canadian content — in public procurement.
- We have required Canadian — not Ontarian — sourcing by all recipients of Employment Development Fund grants.
- We have established an interministerial committee on government procurement that is assessing the potential for increasing the use of provincial procurement to promote Canadian — not Ontarian — industrial development.
- We have opened up our import replacement shows to all Canadian firms and have had as many as 150 non-Ontarian companies attend these events.
- We have been identifying prospects for interprovincial procurement agreements on specific products in order to support the establishment of new Canadian industries — not just in Ontario, but anywhere in Canada.

Taken individually, none of these is a major step forward. But in total, they demonstrate our commitment to balanced economic co-operation between the provinces.

That is the only basis for co-operation that will be acceptable in other parts of this country.

A Model for Co-operation

Last summer the provincial governments accepted our invitation and agreed to the first major program of interprovincial economic co-operation.

During the next year, Canada's 10 provincial governments will be launching a nationwide co-operative and co-ordinated effort to develop the

domestic medical and health-care products industry.

This industry — the medical and health care supply products sector — is typical of many industries in Canada.

It is fragmented, lacks specialization, and is regionally competitive.

The Canadian market for medical and health-care products amounts to \$1.2 billion annually. Fully 70 per cent of that market — about \$850 million — is currently being supplied by foreign imports. And this has happened despite the fact that we have within Canada the capability to serve a far greater share of this market.

We have before us an opportunity to generate new business for an existing Canadian industry while contributing to the establishment of new Canadian firms in all regions of the country.

Within this program:

- each province will work to ensure that those responsible for purchasing in hospitals are made aware of qualified Canadian suppliers, not just in their own province or region, but in the country as a whole;
- each province will be looking at its own purchasing methods, to identify and correct any procedures that impede the ability of Canadian firms to compete for orders; and
- each province will seek to identify opportunities within this market for new Canadian manufacturing enterprises, and specifically those opportunities that will stimulate regional manufacturing operations.

To ensure that both new and established firms have the required capital to develop and expand, the Canada Development Corporation will be providing start-up and growth equity funding.

In the first year of the program alone, we hope to increase by 10 per cent the Canadian share of the health-care products market currently supplied by imports. That's \$85 million worth of increased business for existing and new manufacturing firms in Canada. And it will serve the industrial development aspirations of all regions and provinces in accordance with their own regional development strategies.

But this initial program, for all its merits, is not enough. Quite simply: it is only a beginning.

We must now begin to identify other sectors of the economy where we can work together to replace imports while establishing and expanding the opportunities for new and existing Canadian businesses.

Where Do We Go From Here?

The fundamental question now is whether, after many years of interregional jealousies and traditional arguments, and after a long summer and fall of frustrating constitutional talks, are we going to let our disputes dominate, or can we build together and work out pragmatic programs for interprovincial eco-

nomic co-operation?

The premiers, at their August meeting in Winnipeg, agreed to have their ministers of finance and ministers of economic development meet to work out specific agreements and co-operative programs early in the New Year.

For the first time we have been asked to seek to build Canadian economic strength using mechanisms such as joint purchasing, capital projects, and public-sector research and development.

This, for a country like Canada, is a small but important initiative. Yet it will depend for its success on the sincerity and the dedication of all participants.

Ontario basically has two macro-economic options to pursue: we could seek to strengthen our trade along north-south lines, or we could pursue the Canadian option of strengthening our ties to the rest of Canada on an east-west basis.

The north-south option, or the pursuit of reciprocal free trade with the United States, is an option that all provinces have considered at one time or another. Such an option could offer Ontario some economic advantage.

It is estimated that reciprocal free trade with the United States would increase Ontario's per capita real income by more than 10 per cent; Quebec, the Maritimes, and British Columbia would gain less, followed by the Prairies where the gain might be expected to be at least four to five per cent.

However, the pursuit of free trade with the United States at the expense of an erosion of our ties to the rest of Canada would inevitably lead to the disintegration of our nation. As we became less important to each other economically we would become less important to each other politically and socially.

We, therefore, address these issues with a spirit of optimism and a willingness to discuss ways and means for all of us to advance our individual and collective economic interests through co-operation and the strengthening of our east-west ties.

For its part, Ontario respectfully submits the following proposals on import replacement and procurement, co-operation on public-sector research and development, maximization of Canadian procurement on mega-projects, and the establishment of a Canadian Domestic Market Development Agency.

2

Import Replacement and Procurement

Import Penetration

Canada has one of the highest levels of import penetration of any nation on earth. Last year alone Canada imported \$50 billion worth of manufactured goods.

One of the principal reasons for our high level of import penetration and our relatively weak secondary manufacturing structure is the fragmentation of our own domestic market.

Although we believe that in many cases it does make sense for manufacturers to become established to primarily serve a local regional market, the fact is that it also makes a great deal of sense to have specialist manufacturing operations that, although located in one part of Canada, are designed to serve the entire Canadian Market.

Central Canada's Market

In our preliminary investigation of the health-care goods market we found that in many cases our industries were fully able to compete — on price and on quality — but that they had failed to capitalize on the opportunities that exist in our domestic market because of inadequate sales and marketing efforts, because of a variety of practices and procedures within the health care purchasing systems of the various provinces, and, finally, because people in one region of Canada were too often unaware of the supply capability that exists in other parts of the country.

The result has been that, in many cases, firms that are based in Canada and are successful in selling to export markets have been unable to sell into other Canadian provinces.

With the newly agreed-upon health-care import replacement program the opportunity now exists to generate new business for existing Canadian firms and to help establish new Canadian firms in every region of this country by replacing imports with our own domestically produced health-care products.

For Ontario manufacturers this program delivers access to a much wider market, resulting in the productivities of scale they need to become more competitive internationally.

But the program will, by its very nature, stimulate a faster rate of growth in provinces other than Ontario. Our sister provinces will have access to much more than a regional market. They will have access to a \$1.2-billion Canadian market and the opportunity to establish new companies in this sector.

Since Ontario starts from a larger base, the benefits to us will, naturally, be significant.

But with a population of eight million people, we also bring the largest market in Canada to the table when we sit down to work out co-operative agreements. Ontario can contribute in a very direct and significant way to each of the other provinces across Canada.

In the first year of the program alone, we hope to increase by 10 per cent the Canadian share of the health-care products market currently supplied by imports. That's \$85 million worth of increased business for existing and new manufacturing firms in Canada. And it will serve the industrial development aspirations of all regions and provinces in accordance with their own regional development strategies.

Job Creation

We have talked long enough about the need for co-operation. With this first program we have stopped talking and done something about it. We have a program that will translate into real jobs and real increased economic benefits for all parts of Canada.

But we must begin to identify other sectors of the economy where we can work together to replace imports while establishing and expanding the opportunities for new and existing Canadian businesses.

In fact, a reduction of less than seven per cent in our manufactured imports would be enough to wipe out our overall deficit and create thousands of jobs for Canadians all across this country.

But we can only achieve that by expanding upon these initial attempts at interprovincial co-operation. And that will require the provinces to look not for what divides us but for what can potentially unite us.

Government Procurement

Government purchasing policy represents a potential key instrument of national industrial development that is capable of influencing rationalization, specialization, research and development, multinational enterprise operations, small-business growth, and regional development.

Total government expenditures in Canada on goods and services amount to about \$35 billion annually. Two thirds of those expenditures are at the provincial and municipal levels.

The leverage inherent in government procurement as a policy instrument is, therefore, very significant. In fact, public purchasing of goods and services accounts for approximately 10 per cent of our entire gross national expenditures. This is exclusive of Crown Corporations, which are estimated to comprise another eight per cent.

Provincial government expenditures on goods and services are significant in all regions of the country. It is estimated that Ontario, with about a third of Canada's population, also accounts for about one third of total provincial procurement expenditures. Quebec likely comprises as much as a fourth of provincial purchasing, while the Prairies are responsible for about 20 per cent and British Columbia and the Atlantic region about 10 per cent each.

Impact of Procurement

Ontario alone can have an important impact on the Canadian economy. But co-ordinated actions by all provinces and regions could produce more direct and impressive results.

Specifically, there are a number of key industries on which the impact of government procurement is potentially great. Public-sector expenditures in Canada are estimated to represent more than 10 per cent of domestic production in each of several important sectors including:

- construction;
- community, business and personal services;
- pharmaceuticals and medicines;
- office furniture;
- scientific and professional equipment;
- shipbuilding and repair; and
- other furniture industries.

But the proportion of collective provincial purchases that are imported remains significant. In a selected range of manufactured products, the import component has been estimated at 60 per cent or more.

Important among these products are:

- office and store machinery;
- aircraft and parts;
- health care products and supplies;
- agricultural implements;
- scientific and professional equipment; and
- miscellaneous transport equipment.

The issue of import penetration can, therefore, be addressed with the instrument of procurement policy if the provinces, together with the federal government, can develop compatible and complementary policies that are designed to meet both our national and our regional goals and aspirations.

Provincial Procurement Practices

Provinces have adopted discriminating procurement techniques of varying degrees of subtlety, including:

- selective or single tender in lieu of public tender;
- inadequate publicity of information on bidding opportunities;
- short time limit for submission of bids;
- requirement precluding techniques used by out-of-province producers;
- residence requirements for vendors; and
- preference margins for local suppliers.

Specifically, at the provincial level, the following practices have been adopted:

1. On March 12, 1980, the governments of New Brunswick, Nova Scotia, and

Prince Edward Island jointly announced a new Maritime purchasing policy: "Province first, Maritimes second, and Canada third." The policy is aimed at stemming the loss of Maritime dollars to central Canada but also at fostering increased Maritime manufacturing. Where no Maritime manufacturer is available to supply a product, the provinces together will support the establishment of a producer in the region. All three provinces previously had tendering restrictions.

2. Newfoundland offers a preference of up to 10 per cent for locally produced goods and services.
3. On December 8, 1976, Quebec extended to all government departments the procedure followed by Hydro-Quebec since the late 1960s. (Hydro Quebec buys about 70 per cent in province.) Unless the lowest bid by a Quebec firm is substantially higher than the lowest bid from non-Quebec firms, the province will source locally. This policy has been extended recently to include purchases by hospitals, municipalities, and school boards. In addition, bidding on Government of Canada construction contracts and Quebec subsidized contracts is restricted to firms with principal place of business in the region of Quebec where the work is to be undertaken. (In effect prior to 1961.)
4. Manitoba imposes tendering restrictions and applies a slight preference to Manitoba firms (one per cent on an interim basis).
5. Saskatchewan also has tendering restrictions, but gives preference to provincial suppliers only if all things are equal.
6. In Alberta, projects needing industrial development permits, forest management agreements or coal development permits must satisfy the Alberta Ministry of Business Development and Tourism as to the greatest possible use of Alberta engineering and other professional services, Alberta tradesmen and construction personnel, and Alberta materials and supplies. Alberta claims that the lack of a provincial preference policy has caused the loss of plants and jobs and cites Flex-O-Lite and Phillips Cable as examples. In 1975-76, however, more than 90 per cent of government of Alberta purchases were from Alberta companies.
7. British Columbia applies a 10 percent preference to local suppliers and may take into account regional or sectoral unemployment as well as general health of an industry before awarding contracts. Canadian suppliers outside the province are given a five per cent preference on a sliding scale.
8. Ontario offers a 10 per cent preference for Canadian content as distinct from provincial content. However, in a much publicized decision in 1977, the Ontario government overruled a Toronto Transit Commission recommendation and awarded a contract for streetcar construction to Hawker Siddeley of Thunder Bay over MLW-Bombardier of Montreal, the lower bidder.

Attempts at Co-ordination

While Ontario recognizes that there are legitimate reasons why some provinces

have adopted a degree of protectionism in their procurement practices, we have expressed our concern about market fragmentation and about the need for a greater degree of co-ordination of our efforts.

There have been a number of attempts to get a measure of co-ordination on government procurement practices:

1. Ontario proposed, at the October, 1977, meeting of finance ministers, that provinces abandon purchasing policies favoring local manufacturers, and since has pressed for adoption of "Buy Canadian" guidelines.
2. The problem was again identified in the Industry Sector Task Force consultations, and it was recommended by the first ministers and ministers of industry, at their November, 1978, conferences, that public purchasing be used to achieve economic policy objectives.
3. In 1979, an interprovincial working group on procurement was established to address problems of market fragmentation caused by provincial purchasing practices. Little progress has been made in establishing common policy.
4. It was announced on April 17, 1979, that the federal government has signed agreements with Newfoundland, New Brunswick, Manitoba, and Alberta to help co-ordinate government purchases.
5. Provincial governments together with the federal government have agreed to establish a nonobligatory *Code of Understanding on Public Procurement*, as a first step in co-ordinating practices among governments, but no agreement has been reached.

It is now nearly two years since a federal/provincial meeting of industry ministers established a working group to assess the potential for co-operation among governments in using procurement for industrial and regional development.

Despite the further endorsement of first ministers, we are no closer to formalizing an agreement on this issue. In fact, the federal/provincial procurement committee has met only three times in the past two years.

Co-ordination of Procurement

We recognize the difficulty in developing a mutually advantageous procurement deal that meets the development aspirations of all the provinces. However, if we can find a procedure by which provinces can co-operate in supporting specialized production that would otherwise be fragmented or imported, it surely must be possible to distribute the industrial benefits in a way that does not come at the expense of a loss of our efficiency or of our international competitiveness.

Ontario is not arguing against the establishment of regional economic development strategies or having provincial procurement policies that give a degree of preference to local suppliers.

But too often these strategies, built upon too narrow an information base

and cultivated in the absence of federal leadership, result in fragmentation, interprovincial barriers, restriction of markets, and limitations for long-term Canadian growth.

The net results are simply higher costs to taxpayers and lost efficiency to industry, both of which we can ill afford.

Surely by co-operating we can use our combined procurement to support specialized production and thus establish economic rather than sub-economic production facilities.

Each province, rather than using its own procurement to set up inefficient production units, should, by contrast, attain specialized and economically efficient production by utilizing the combined purchasing powers of all the governments. That combined purchasing power — well in excess of \$35 billion annually, excluding agencies — could be used as an economic development tool that could work in the interests of the nation as a whole.

Office of Procurement Policy

The Ontario government, in recognition of the need for greater co-operation and in recognition of the need to ensure the maximization of Canadian purchasing by our own government ministries and by our agencies, has recently created a new office for government procurement policy.

The office will be examining the costs and the feasibility of establishing improved systems to disseminate information about government purchases ideally far enough in advance to give firms in all parts of Canada a reasonable opportunity to tender.

The Office of Procurement Policy will also be developing new initiatives designed to make public sector purchasing more effective.

A mechanism will be established requiring that all substantial purchases be reviewed where there is an intention to place the order with a foreign firm.

As part of that mechanism, the Office will have the mandate to recommend to the Ontario Cabinet that preference in excess of the basic 10 per cent be considered in cases where the purchase is of particular importance to a specific Canadian industry.

We suggest that the federal government reconvene the federal-provincial procurement committee as soon as possible so that ministers of economic development can work more effectively together in working out co-operative procurement programs designed to enhance the economic interests of all regions.

Communications Equipment

As a follow-up to the health-care import replacement program there are a number of critical sectors within which co-operation and co-ordination could be of benefit to all provinces and where programs can be agreed on now.

Governments are major purchasers of communications equipment. The apparent domestic market is approximately \$25 billion with a trade deficit of \$593 million due mainly to substantial imports of components. The components industry is highly dependent on the large volume associated with domestic radio and TV manufacturing and the demise of the latter industry has produced a corresponding decline in component manufacturing.

Although some government purchases are related to extending the size of communications networks and to routine repairs, major purchases are usually associated with extensive upgrading of systems rendered obsolescent by developing technology.

By working together, provincial departments of economic development and departments responsible for industrial development could use their provinces' combined purchasing power to expand existing communications equipment firms and to create new ones.

Pharmaceutical Supplies

In the area of pharmaceuticals provincial hospital systems are major purchasers. With an apparent domestic market of \$1.3 billion, about 24 per cent of pharmaceuticals are presently being imported.

We suggest that a study be made about the feasibility of establishing a Bulk Purchasing Corporation for pharmaceuticals and that this study examine the possibility that such a corporation would supply all Canadian hospitals with drugs at the lower rates achieved from the benefits of bulk purchasing.

If the provinces agree to the establishment of a Corporation, this vehicle would be in an excellent position to identify opportunities to replace imports when particular drug sales achieve sufficient economies of scale to warrant domestic manufacturing.

Ontario recommends that economic development ministers review the concept of a Pharmaceutical Bulk Purchasing Corporation with their ministers of health, the Federal Government, and with officials of the Canada Development Corporation.

Educational Material

In the field of education, total spending by school boards, colleges, and universities in Canada amounted to more than \$18 billion with about 25 per cent of that amount devoted to supplies and equipment. A study prepared by Comstat Consulting Services Ltd. estimated that about 40 per cent of the supplies and equipment expenditures in education is for imported goods.

During the next decade, Canadian schools at all levels will be making extensive purchases of computers, computer aided learning devices, and other high tech products that must form an integral part of the learning curriculum during the eighties. To the greatest extent possible, the procurement by school

boards, colleges, and universities should be designed to support the advancement of the new and emerging high-tech companies in Canada.

Ministers of economic development should work together to develop a program that ensures that Canadian technology is acquired in our educational institutions.

High-Tech Office Equipment

The federal government recently announced a \$12.5 million program to support the development and testing of "office of the future" technology. This program is designed to give Canadian software development companies a leading advantage and assured market for systems and products that, as we enter the eighties, will become an expanding market throughout Canada and the world.

Capturing a significant market share in office electronics is a critically important task for Canada. The trade deficit in office computers escalated to \$700 million in 1978 vs an estimated \$180 million in 1967.

We recommend that all governments use their purchasing power to ensure that Canadian firms in this business have the opportunity to grow and expand in this potentially high-growth area.

Pollution Abatement Equipment

In the area of pollution-control equipment total spending by all governments in 1975 was approximately \$300 million, with Ontario and its municipalities purchasing \$120 million worth of this type of equipment.

But the value of imports was \$183 million or 61 per cent of the total government purchases.

A deliberate policy on the part of all governments to source pollution control equipment in Canada would enhance the growth of this growing and important industry.

Machinery and Equipment

Since 1970, the Canadian machinery market has been expanding at an average rate of more than 12 per cent a year. Indications are that this increase will be maintained or even accelerated in light of the number of major energy and other resource capital projects that are in progress or being planned. These developments, together with an increased export market, are expected to sustain a fairly high level of machinery demand in the next few years.

However, within this vital sector, import penetration of the domestic machinery market has gone from a relative share of 50 per cent in 1970 to nearly 70 per cent in 1978. In fact, our trade deficits in this sector have averaged over \$4

billion per year for the past five years and account for 40 per cent of the entire national deficit in finished manufactured goods.

Today, next to Iceland, Canada has the poorest machinery trade performance of all twenty-four O.E.C.D. countries.

But approximately 50 per cent of our machinery imports consist of products that compete with existing Canadian production lines.

Provincial governments could therefore develop programs, in conjunction with the private sector, that would increase the sales of our own domestic producers of machinery and equipment and reduce our large and growing deficit in this sector.

Bilateral and Multilateral Trade Shows

Despite the fact that the provinces are each other's best and most important customers, very little is done to promote interprovincial trade links.

Each province and the federal government have, during the past decade, expanded export programs and export assistance programs, opened foreign offices, and expanded their foreign trade missions at an incredible rate.

Canadian businessmen from the various parts of the country are more likely to meet in Japan or Europe than on their native soil.

But because there is no established tradition of bilateral or multilateral interprovincial dialogue and because there are no conscious efforts by either the provinces or the federal government to promote interprovincial trade, the economic linkages between the provinces have, in recent years, been eroding rapidly.

We recommend the establishment of a series of bilateral and multilateral manufacturing opportunity shows on a sector-by-sector and on a region-by-region basis.

These shows, from our perspective, could demonstrate products or components that Ontario manufacturers are now importing but that could be supplied by a Canadian manufacturer in another province. In addition, these shows could exhibit products manufactured in other provinces that have sales growth potential in the Ontario market, but that may have lacked a co-ordinated sales thrust to get them exposed in our market.

Although Ontario has proposed such shows and exchanges in the past, some of our sister provinces have greeted our suggestion with skepticism and mistrust of our motives.

If provincial governments don't co-operate with each other and if we don't stop concentrating our own efforts and energy on the things that divide us, we will do so at the expense of our own regional private-sector firms and at the expense of lost job opportunities for our citizens.

Private Sector Import Replacement

Trade shows, like the Opportunities in Mining Conference sponsored by the

Mining Association of Canada and scheduled to take place in Vancouver next April, should be encouraged.

Instead of being an exhibit of products for sale, the Opportunities in Mining Conference is intended to acquaint Canadian manufacturers with the equipment and material needs of the industry.

Within this industry alone, 77 per cent of the domestic mining equipment market is now being supplied by imports. Furthermore, while Canadian machinery needs grew by \$4.1 billion in the past two years, domestic sales increased by only \$0.6 billion. The remaining \$3.5 billion went to foreign suppliers. Canadians thus captured only 14 per cent of the growth in this large — \$12.1 billion — annual market.

Other key sectors experiencing significant trade deficits are:

	Trade Balance (Millions)	Import Per cent
Machinery	\$6,200	69
Electronics	2,000	66
Textile	1,225	60
Electrical	1,100	31
Plastics	700	23
Footwear	235	53
Furniture	125	13
Petrochemicals	116	41

Interregional and sectoral trade shows that promote interprovincial trade and encourage the replacement of imports with domestically produced goods could serve to strengthen our regional economies and the economic well-being of the country as a whole by encouraging import replacement in a whole range of key sectors.

Civil Service Exchange Program

The Ontario Ministry of Industry and Tourism has suggested on several occasions that it is prepared to assist other provincial governments and their private-sector firms in assessing market opportunities in our province.

We have suggested that, in order to take full advantage of these opportunities and to ensure that Ontario and its sister provinces become more familiar with each other's economic strategies and objectives — as well as with the range of economic policies and programs in each province — we, as provincial governments, either bilaterally or on a multilateral basis, should exchange senior officials on a temporary basis.

We believe that such a program, and the kind of personal contact that it would promote, would do much toward relieving the tension and distrust that have been building between provinces during the past several years.

If we are to build on a new spirit of co-operation between the regions

then it is vital that we get to know each other and to understand each other better.

A good place to start is with our professional civil servants. We suggest that provinces on a bilateral basis, arrange an exchange of two senior civil servants for periods no longer than six months duration.

3

Research and Development

Innovation and Growth

The most profitable industrial enterprises, and those enjoying the most rapid growth internationally, are those that are characterized by high skill-intensive technology in their work force.

Innovation-intensive industries have consistently outperformed manufacturing generally in terms of employment, the value of output, productivity improvements, and price competitiveness.

Canadians are at last beginning to recognize that the success of our high tech firms can have enormous spinoffs for our economy, not only in the tax revenues and the high skill jobs provided, but also in the long term technological and industrial benefits that can accrue.

We are beginning to see the emergence of a new understanding among the provinces that tomorrow's jobs and the health of our economy are directly linked to our nation's success in creating innovative products, new technologies, and unique processes, faster and better than our international competitors.

During the past few years it has become clear that international markets are increasingly being dominated by foreign companies that are government-supported, government directed, and sometimes protected by the security of closed domestic markets.

For most of our international competitors, trade — and all aspects of trade, including heavy subsidization of R&D — has become an extension of government economic and industrial strategy. We would be naive to ignore what is happening.

Walter Light, president of Northern Telecom, recently suggested that "Canadian governments must ensure that all Canadian corporations can at least compete on even terms, and with the same advantages in size and national support as their competitors."

Governments in Europe and Japan are subsidizing the development of their technological sovereignty with billions of dollars because they know they cannot afford to be without it.

The reality is: neither can we.

And the message now is clear: if Canadians are to capitalize on the benefits of high technologies, we must take some calculated risks. We must search out areas of scientific and engineering research. The provinces, together with the federal government, must discover trends and patterns, predict possible impacts, and take advantage of this knowledge to act in ways that will help ensure economic and social stability in our respective regions and across the nation.

R&D and Innovation

The basic statistics that show that, as a percentage of gross national product, Canada spends less on R&D than virtually any other industrialized nation, have become well-known. They are cited, along with our balance of payments

figures, any time anyone wishes to explain just what's wrong with manufacturing in this country.

And yet, while a discussion of the R&D problem has become commonplace in both government and industry circles, we have made little progress in reversing the slow rate of innovation within our economy.

One indicator that shows clearly the degree to which Canadians and Canadian enterprises have been falling behind in the process of innovation can be seen in the statistics on registration of new patents supplied by the World Intellectual Patents Organization in Geneva.

Those figures show that in 1976, 26,163 applications for patents were submitted in Canada, but only 1,839, or seven per cent, were from residents of this country.

Compare that to the experience in Japan, where a total of 161,016 applications for patents were submitted, with fully 135,762, or 84 per cent, coming from residents of that country. In West Germany, 50 per cent of the total 61,705 applications came from residents, and in Australia 31 per cent of the total 14,117 applications were likewise submitted by residents.

By this measure alone, Canadians are being outperformed by virtually every other industrialized nation in the world.

International Trends

There is no mystery about the basic international macro economic trends that lie behind the R&D problem. But there are three trends that are of particular significance and concern to Canada.

First, industrial countries are experiencing slower rates of innovation than they have in the past. And as governments and industry in other countries develop their own programs and their own initiatives to deal with the situation, there is a very real possibility that industries in Canada will find themselves threatened by more modern and effective industries elsewhere.

A second major international trend that has implications for Canada is the shift between countries that has been taking place in innovation and in the development of new technology, specifically from the United States to Europe and to Japan.

The massive technological lead upon which much of the industrial strength of the United States has been based is now being dramatically eroded.

Increasingly, new products, new technologies and new processes are originating in Europe and in Japan.

Given that much of our industrial success has been based on the fact that the technologies we imported from the United States were superior to those available elsewhere, this reality is of particular concern to Canada.

Another implication of this shift is the effect it will have on U.S. industrial policy.

It is quite possible that, as the United States moves to protect its technological lead, the ease with which Canada has had access to American developments may be diminished.

Regardless of increases in our own ability to innovate, we will not be able to end our dependence on American technology overnight. For this reason we are particularly vulnerable to any such policy change by the United States.

The third international trend relates to the transfer of technology from developed to less developed countries that is taking place much more rapidly today than in the past.

What this means is that any competitive advantage we may enjoy as a result of superior technology will prove to be short-lived.

Linkages with Industry

There is no question that existing incentives for R&D spending must be improved. But perhaps, just as importantly, we must attempt to resolve other key deficiencies in the innovation process.

The first relates to the lack of coherent linkages between such centres of scientific activity as universities and our manufacturing industries.

We have to do a better job of getting R&D out of the laboratory and onto the assembly line.

In recent years federal support for R&D has been largely through university based research. But without a clear connection between that research and firms throughout our economy we in Ontario are, quite frankly, sceptical that this large-scale influx of funds will be translated into measurable, practical innovation in industry.

In the medium term at least, our emphasis must be placed on industrial R&D and industrial innovation. This calls for developing stronger ties between provincial universities, as centres of scientific excellence, and manufacturing firms throughout Canada.

University training, which remains as an important jurisdiction of the provincial governments, must be co-ordinated to meet not just provincial goals but national industrial goals and objectives if we are to succeed as an internationally competitive nation.

Provincial Co-ordination

"High tech" and "R&D" have become popular buzzwords among policymakers in all jurisdictions. In fact, all provincial governments are starting to show an interest in developing individual provincial industrial strategies and the corresponding establishment of appropriate local research and development programs.

This phenomenon has a simple explanation: provinces want to control their own industrial development strategies and, realizing that R&D is a key element of those strategies, they have developed independent R&D capabilities that are designed to serve their own interests.

In response to those legitimate desires, eight provinces have established

provincially run research organizations that collectively are spending more than \$55 million R&D.

Here is how the provincial research organizations stack up:

Provincial Research	
	1979 (millions)*
Alberta Research Council	15.0
Ontario Research Foundation	11.9
Centre de Recherche Industrielle du Quebec	9.8
Saskatchewan Research Council	5.9
British Columbia Research	4.7
Nova Scotia Research Foundation	3.6
New Brunswick Research & Productivity Council	3.0
Manitoba Research Council	2.0
Total	55.9

The problem is that there is a lack of co-ordination, sharing, or joint venturing among the provincially owned research facilities and no agreed upon strategy of specialization or even sub-specialization.

Again, we have become competitive rather than complementary in our development efforts.

* Includes revenue and expenditures. Provincial research organizations undertake contract research, perform technical services for a fee, and receive provincial government grants.

Directions on R&D

We believe that federal and provincial R&D efforts should be directed toward the following principles:

- the development and promotion of technologies that have potential for export; and
- the development and application of technology that enhances the productivity of our existing traditional industries;
- the development of new and emerging technologies that will expand job opportunities and new products and processes;
- the development and promotion of technologies that have potential for export; and
- the development of technologies and manufacturing capabili-

ties that will enable us to export goods, services, and know-how around the world.

These basic principles, if co-ordinated nationally and provincially, could enhance our efforts and enable us, both individually and collectively, to achieve our national industrial goals.

Resource Extraction R&D

Canada has never had an effective strategy that developed our domestic manufacturing industries on the strength of our primary industries.

We have a strong mining industry but no real capability in mining equipment and technology. We have a phenomenal oil, gas, tar sands, and frontier fossil-fuel extraction industry, but we are not on the leading edge of either the technology or the equipment manufacturing side of this vital and expanding sector.

We have a strong fishing industry, but no substantial processing and equipment-manufacturing capability. We have a strong pulp, paper, and forest-products industry — but we have never maximized our potential to supply this industry with Canadian-made technology and equipment.

In short, we have never utilized the strengths of our primary resource extraction industries to build a secondary manufacturing capability in Canada.

But there are real opportunities to reverse this situation. Within the \$210 billion investment program on megaprojects during the next decade the equipment requirements will be \$67 billion. Past Canadian industrial performance suggests \$48 billion could be sourced through Canadian manufacturers if appropriate measures are taken to encourage Canadian sourcing.

This leaves \$19 billion worth of orders that must go outside of Canada because there is no developed Canadian capability.

Offshore orders for items like draw-works, mud pumps, diesel engines, drill pipes, compressors, high pressure reactor vessels, instrumentation systems, reclaimers, draglines, cable reel cars, and conveyors could be developed and manufactured in Canada if we were to make it our national goal to achieve those objectives. The result could be many thousands of new jobs for Canadians from coast to coast.

Although the Alberta Research Council is now developing technology for oil sands extraction and other fossil-fuel extraction processes there is a real need to develop, in consultation with the private sector, the equipment-supply side of megaproject technology.

On the East Coast and in the Arctic, where the challenge of producing oil from 1000 metre depths involves massive technical difficulties, we again have significant opportunities to develop new technology that would not only serve our own immediate domestic needs but could enable us to become world leaders in this lucrative technology and equipment-manufacturing business.

The establishment of an East Coast Canadian Ocean Technology Research Centre to work with established manufacturers and with new regional

manufacturers could help ensure that Canadians receive the maximum benefit from this type of natural-resource extraction.

Productivity in Traditional Industries

Canada's large and ever increasing trade deficit in manufactured goods is a concrete measure of our lack of competitiveness. It reflects the reality of our role as an exporter of raw materials and as an importer of manufactured goods.

But the recovery of our competitiveness can only result from a marked increased in our productivity. Enhanced productivity, in turn, depends on specialization, on significant increases in equipment and plant investment, and on rapid advances in technology, as applied both to new products and to improved production processes.

Other countries are vigorously attacking this same problem. As manufacturing spreads to lower labor-cost countries, productivity through technology becomes the only responsive strategy available. Japan's automation of machine tool plants, the spread of computer-aided design techniques, advances in robotics, improvements in process controls, the British support of microprocessor application, are all examples of discretionary industrial policies aimed at enhancing productivity and competitiveness.

The fact is: we are in the midst of a revolution. A major new technological force is emerging, and we are about to experience an era of social and economic change that is virtually unparalleled in our history.

Microelectronics R&D

In the next few years the application of microelectronic technology will affect how we work and what kinds of work we do. It will affect us not only as employees and employers but also as educators and decision makers.

All sectors of the economy — agriculture, resources, manufacturing and service industries — must keep up with our foreign competitors in the use of microelectronic technology or risk becoming globally uncompetitive.

It is vital for Canada to take a leading role in the new technology if we are to remain a "have" nation in the years ahead.

But if we are to achieve that goal we must radically alter the course we are now on. In fact, we, as a nation, must commit large and substantial amounts of resources, manpower, and skill if we are to retain our competitive position in the world during the next two decades.

A recent study prepared for the U.K.'s Department of Industry concluded that:

"There is considerable risk that some countries will not exploit the technology as actively as their major competitors. Where a country fails to introduce microelectronics into its products, and fails to take advantage of the improvements in productivity that the

technology will allow, its products may become non-competitive in the world market."

It is vital that all of us — business people, politicians, industrialists, the media, and the public — take an interest in and learn about the kind of world the new technology will deliver. And it is vital that the provincial governments co-ordinate their efforts in meeting the challenges ahead or risk fragmentation of our efforts.

The new technological revolution will happen regardless. It's really a question of where we will be: out in front or dragging behind.

To date, our response to this problem — and potential opportunity — has been woefully inadequate.

The federal government has invested \$50 million over three years to assist in the development of semiconductor technology and other electronic products and the department of communications has undertaken a \$12.5 million program to develop Canadian expertise in automated office communications equipment.

In Ontario, we have established a Task Force on microelectronics with an urgent mandate to report on the priority initiatives we can undertake to ensure that we, in fact, target our resources for the maximum effect.

In Manitoba, the government has established, in conjunction with the federal government, a million dollar microelectronics R&D facility.

Other provinces, particularly Alberta and British Columbia, have also expressed an interest in microelectronic technology.

But we need to develop areas of specialization within microelectronic R&D and we need to share and pool our knowledge if we are to avoid costly duplication.

Who should develop computer-aided design (CAD)? Who should concentrate on computer aided manufacturing (CAM)? Who should specialize in software development? Who should become the centre of expertise in telecommunications micro technology? Which of us should concentrate our efforts on "office-of-the-future" technology? Who should concentrate on micro mass-consumer products? Which province should excel in robotics technology development and in numerically controlled machinery?

If provinces are to invest public dollars in microelectronic R&D, then we must develop areas of specialization if we are to avoid the costly duplications that could result from the current lack of co-ordination and co-operation.

Biotechnology R&D

An area that is destined to experience phenomenal growth during the next few decades is biotechnology. This is a high technology in which we have an opportunity to make significant advances that would give us an important lead in an increasingly important field.

Biotechnology is the manipulation of bacteria and micro-organisms for the production of goods and services. Like microelectronics, the industrial

applications from advances in biotechnology have the potential to affect almost every sector of our economy, either with entirely new products or with the replacement of traditional products and processes. It is clearly a sector of the future, one that is felt by many to be in 1980 where the microelectronics industry was in 1960 and 1970.

Micro-organisms have been used for centuries to produce things such as beer and cheese. What is new, and what has revolutionized biological technology, is the ability to engineer "bugs" to do specific things. This is accomplished primarily through the recombining of the genes of various organisms.

The potential impacts of biotechnology are likely to affect, in the near future, the industrial sectors of health care, energy, agriculture, forestry, and mining.

In the area of health care, industrial opportunities include the production of hormones, vaccines, antibiotics, and a wide range of new pharmaceuticals and substances for immuno-diagnostic applications.

In energy, Canada has an excellent source of the basic feedstocks for commercial production of alcohol that can be used as fuel. Methane can be produced from the fermentation of industrial, domestic, and agricultural wastes. There is an additional advantage in that it can be distributed through existing natural gas pipelines for domestic use and export. Methane can also be hydrated into methanol, a liquid fuel. The residue from the fermentation could be an environmentally acceptable, nitrogen-rich fertilizer.

The costs of petroleum recovery from the tar sands could be reduced by the use of microbial methods for the separation of bitumen. There could also be important spinoffs from microbial research in the energy field for detergent, paper, paint, food, and cosmetics industries.

In agriculture, microbes could be used to convert methanol into single cell proteins that would make highly specific dietary supplements, both for people and for animals.

Another area that looks tremendously promising is the use of biotechnology to adapt plants — particularly cereal crops — to create their own fertilizer by nitrogen fixation. This would reduce the need for artificial nitrogen fertilizers — with their attendant environmental hazards — and reduce the demand for petrochemical feedstocks, which are becoming increasingly expensive.

Biotechnology offers us an opportunity to develop new plant varieties that are resistant to low temperatures and soil variability.

And in forestry, biotechnology could contribute to significant efficiency improvements through the microbial — rather than chemical — degradation of wood. A portion of the industrial waste from pulp and paper production could also be fermented to produce a valuable human and animal feedstock in the form of single-cell protein.

In mining, the bacterial leaching of copper, uranium, nickel, lead, and zinc are possibilities. These are non-energy intensive, nonpollution methods. Farther into the future is the use of micro-organisms as vehicles for metal recovery and water purification.

Today, Canada has a small but rapidly developing involvement in bio-

technology research. The National Research Council and Agriculture Canada are active at the federal level, and the research councils of Alberta, Saskatchewan, and Manitoba have varying degrees of involvement in this field.

In our province, the Ontario Research Foundation is active in the preparation of fermentable feedstocks from biomass, and is currently recruiting expertise in recombinant DNA.

We already have 35 private sector companies that are currently involved in some aspect of biotechnology. Twenty of those companies are located in Ontario.

The government of Alberta, in conjunction with the city of Calgary, the Chamber of Commerce, and the University of Calgary, has formed a research and development authority to attract top international research organizations and scientists in the fields of medicine and biotechnology.

But again, as several of the provinces and their provincially owned research organizations begin to participate in this exciting new technology, there will be a need for co ordination and co-operation if we are to avoid duplication of efforts and hence the squandering of public funds.

Interested provincial governments and their R&D facilities should, to the greatest extent possible, agree in advance on areas of specialization in biotechnology research and its commercial application.

Fibre Optics R&D

Fibre optic technology, with its twelve hair thin threads of pure glass, passes light pulses that are in fact coded video, voice, and print transmissions. The application of this technology will not only have a profound impact on the way we live, but it has the potential of creating thousands of new jobs for Canadians in both the hardware and the software supply industries.

Saskatchewan has acquired the largest fibre optic facility with the move of Northern Telecom to Saskatoon. Saskatchewan, through Sask Media and Sask Tel, has in fact made world leading technological breakthroughs in adopting fibre optic transmission with Canada's already commanding lead in Telidon information systems.

In the next four years communities containing more than half the population of Saskatchewan will be linked by 3,200 kilometres of fibre optic cable.

As the system is developed, its two-way capacity will be steadily increased so that people can use their TV sets to call up the programs, information, and other services available.

The system that Saskatchewan is developing has tremendous capacity. The existing technology is capable of carrying 4,000 simultaneous telephone conversations, or 12 TV channels. By comparison, it takes a 3,900 pair cable, about three inches in diameter, to handle the same amount of telephone traffic.

In the longer term, switched optical fibre networks offer exciting possibilities. Within a few years, such systems promise to provide subscribers with many TV channels for the price of a conventional copper loop capable of

carrying only a single voice channel.

The eventual result of the development of optical fibre networks should be the full integration of television broadcasting and information distribution systems into a wide-band, common-carrier network. This in turn could lead to a proliferation of on-demand, pay-per-program, pay-TV services as well as making the picture-phone a viable economic proposition.

For example, Sask Media, the province's educational communications corporation, distributes about 100,000 films and video tapes a year. In the coming years it will be very cost-effective, as well as convenient, to have this material available for call-up, or "accessing" by local branches of the provincial library, community colleges, schools, and community organizations.

The fibre optic developments by Sask Tel and Northern Telecom could potentially be a major new Canadian technology for export. But fibre optic technology also has tremendous potential throughout the entire domestic Canadian market and can provide thousands of new jobs directly in hardware development and indirectly in creative programming applications.

The fibre optic wiring of Canada could well be as important for our nation in the eighties as the development of pipeline networks and railway tracks was in other eras.

It is critical that Saskatchewan, the federal government, the Bell Telephone Company and other provincial telephone companies work together with the provincial governments in the development and expansion of this major job-generating technology.

Urban Transportation

Canada has become a world leader in urban transportation technology. Ontario's Urban Transportation Development Corporation, Quebec's Bombardier, and Manitoba's Flyer's Industries Limited, have developed technological capabilities that could and should be exported to the major markets of the world.

There are real opportunities for Canadian firms to sell \$199 million in rail transit to the United States between 1981 and 1985, rising to \$439 million between 1986 and 1990.

However, our sales potential has been restricted in some states by new provisions for urban transit in the "Buy America" rules, which have given preference to U.S. firms unless foreign companies provide 51 per cent U.S. content in components and final assembly in the United States.

Ontario, Quebec, Manitoba and the federal government should work together with the U.S. federal and appropriate state authorities to ensure that Canada's world-leading urban transit technology and manufacturing capability are sold into this huge lucrative market.

In addition to the established Ontario, Quebec and Manitoba capabilities in transit technology, British Columbia will soon have an industrial component of high technology transit manufacturing as a result of the recent Ontario-British Columbia joint venture to build an urban transit system for the Vancouver area.

The bilateral agreement – which stands as a model for future interprovincial co-operative initiatives – opens up the opportunity for our provinces to sell Canadian transit technology on a joint-venture basis to Los Angeles, Detroit, Miami, and around the world.

Innovation Centres

In 1978, the former federal Minister of Science and Technology announced that the federal government intended to establish five university-based innovation centres across the country.

These centres were to have offered courses in entrepreneurship and technological innovation for engineering, science, and business students with an entrepreneurial bent. They were to provide small and medium-sized technology-based firms with specialized advice and help in technical development and commercialization of inventions and they were to provide funding for entrepreneurs with good potential.

The federal government targeted \$30 million over six years to establish these centres but to date only two centres have been established. In fact, only \$400,000 has been spent on start up costs at Ontario's University of Waterloo and at the Ecole Polytechnique in Montreal.

If the federal government is serious about its commitment to R&D it should review its plans on innovation centres with the provinces and make firm decisions on funding and implementation of a long-range manpower training program linked to regional and national industrial development strategies.

Canadian Council of Research and Technology Centres

The analysis of R&D, of provincial duplication of efforts in research, and of the developing capabilities in microelectronics, biotechnology, ocean industries, and fibre optics, clearly demonstrates the need for national co-ordination and consultation.

Although the provincial research organizations now have an informal association through Provincial Research Organizations (PRO), we believe that there is a need for formal national organization reporting to Ministers.

We recommend the establishment of a Canadian Council of Research and Technology Centres with representatives from federal and provincial departments of economic development.

This council should be immediately commissioned to analyze and report on public sector R&D activities, programs, and policies in Canada and to make recommendations on areas for co-operation, co-ordination, joint ventures and areas for future development.

This analysis, prepared under the chairmanship of the federal government, should be presented to a conference of federal and provincial ministers of economic development in one year.

4

Megaprojects

Mega-Opportunities

The massive capital projects about to be undertaken in Canadian oil and gas related developments and in major electrical generation and transmission projects represent a potential stimulus to Canadian manufacturing and industry that is virtually without parallel in our history.

It is estimated that during the next 10 years there will be a total capital expenditure of \$210 billion on major oil and gas related projects.

These calculations indicate that there will be:

- \$42 billion expended on oil and gas exploration and drilling;
- more than \$21.9 billion spent on heavy oils — on exploration, drilling, and production by new methods, including upgrading prior to refining;
- an expenditure of \$17.4 billion on pipelines for the transportation of oil, gas, chemicals, petrochemicals, and coal slurry;
- \$48 billion spent on frontier development;
- \$5 billion spent on refineries and gas plants;
- \$5 billion spent on alternative energy development projects;
- more than \$6 billion spent on coal, uranium mining and processing; and
- a capital investment of almost \$5 billion in refineries for processing equipment required for gas or oil, other than heavy oil.

And in the electrical utility field we estimate that during the next 10 years alone Canada will spend about \$63.3 billion on generating projects.

Even in global terms the magnitude of these projects is staggering.

For Canadian manufacturers it is estimated that within the \$210-billion investment program the value of the manufacturing opportunities will be in the order of \$67 billion.

At the present time if all orders that could be placed in Canada with existing suppliers were in fact made here, then Canadian manufacturers would receive as much as \$48 billion in new orders.

In addition, there are very real opportunities to develop new Canadian suppliers for the \$19 billion in orders that must now be placed offshore because there is no existing Canadian capacity.

The Canadian Petroleum Association has estimated that for Ontario alone one \$7-billion tar sands plant could mean:

- \$800 million in business for the Ontario iron and steel industry
- \$370 million for Ontario metal-working firms;
- \$325 million for the Ontario transportation industry;
- \$740 million for other manufacturers and processors in Ontario; and
- \$780 million for the Ontario trade and service sector.

These projects obviously do represent tremendous new opportunities. In the short term, steel producers and other manufacturers across Canada will be facing increased demand for their products. In the long term, we have a chance to build our industrial capability to the point where Canada can compete — on an equal basis — in export markets throughout the world.

But the fact is: we simply cannot take it for granted that massive Canadian capital projects will automatically translate into equally massive orders for Canadian manufactured goods.

We believe that Canadian manufacturers must be given the opportunity to compete more openly and fairly for contracts that arise from the major energy developments that are coming on stream.

Opportunities Lost

The energy capital projects — with their huge demand for project engineering and construction management, pipes, valves, pipe fittings, compression systems, construction equipment, prefab buildings, welding equipment, supply and communications equipment, and electrical generating and transmitting equipment — can and should provide tremendous scope for the established and emerging manufacturing industries of Canada to benefit and to grow.

Unfortunately — all too frequently — materials for the megaprojects are purchased abroad.

There is no question that Canadian manufacturers have the expertise and the capability to supply much of the equipment currently being purchased offshore.

Canadians could, and should, be taking advantage of these phenomenal opportunities to expand our industrial base.

The potential benefits to be gained from broader co-operation are so significant that we must work out equitable national approaches to overcome the obstacles.

While Canada is already benefiting from capital projects taking place across the country, all too often heavy equipment, machinery, and services that could be sourced in Canada have been, or are being, supplied by foreign manufacturers.

Using the Syncrude project as an example, about 40 per cent of the materials purchased were sourced outside Canada. And Manitoba Hydro's last major purchase under its former government was for Russian generating equipment to be used in the Jenpeg Station.

In the past we have had similar major resource developments -- in mining and in forestry — in other parts of our country.

Those resource developments have generated jobs, opportunities, and considerable wealth for Canada.

But historically, we have done far less than other nations to ensure that those developments resulted in the maximum possible contribution to our total industrial strength and to the diversification of our economy.

During the mining boom of the 1950s, for example, firms in Canada

placed orders for hundreds of millions of dollars worth of mining equipment with companies in Sweden, in Germany, and in the United States. Those orders effectively underwrote the research and development work that has made their manufacturing industries internationally dominant. In short: we helped to create the industrial strength within those nations that now rank amongst our major international competitors.

Governments and industry during the 1950s failed to establish the kind of relationship necessary to predict that occurrence and to prevent it from happening.

It would be foolhardy to let it happen again.

Other Jurisdictions

Reasonable national procurement policies are practised by almost every nation on earth.

Both Britain and Norway have linked the granting of exploration and production acreage to industrial development.

The British approach requires the exploration companies to sign a "memorandum of understanding" specifying British content requirements. All purchases must be reported to the Offshores Supplies Office, and any order of more than \$100,000 must be reported before ordering. Through this mechanism the government alerts British manufacturers about evolving opportunities and is in a position to persuade companies to maximize their British content.

As a result of this program, British content for North Sea activities has jumped from 30 per cent to 80 per cent in just a few years.

Under the Norwegian system, oil companies must propose what industrial benefit to Norway will result from a successful acreage grant. In this way, along with heavy participation by the government owned oil company, Norwegian equipment content has been maximized.

Procurement in Canada

Of the \$210 billion anticipated megaproject investment 37 per cent will be spent on supplies and equipment.

But the equipment and technology required are new to both Canadian and global experience. This reality indicates that these new opportunities could provide Canadian manufacturers with the chance to become world-leaders in new technology and equipment manufacturing.

Although both the Great Canadian Oil Sands (GCOS) and Syncrude did their best to source in Canada, many opportunities were lost.

But the lessons learned from the GCOS and Syncrude experience, where imports of equipment reached 40 per cent, should be applied to the new Alsands and Cold Lake projects when they eventually come on stream.

The management of these specific new projects have already taken encouraging steps on their own to maximize their Canadian content.

Foothills, for example, has developed a highly commendable procurement policy where the evaluation criteria are weighted toward high Canadian content. In fact, the company has indicated a willingness to pay a premium where there is a clear benefit for doing so.

But while we recognize that improvements have been made in the recent past, we nevertheless believe that reasonable "Buy Canadian" requirements should be developed by the federal government in consultation with the provincial economic development ministers and in co-operation with the private sector.

Forecasting Equipment Requirements

The equipment requirements for the megaprojects of eastern and western Canada are staggering.

On the East Coast equipment requirements for drill ships, seismic equipment, subsea systems, drilling derricks, manned and remotely controlled submersibles, semi subs, and jack-up rigs provide us with real opportunities to develop a leading edge in this new technology.

In the West, there is already a huge demand for project engineering and construction management, pipes, valves, pipe fittings, compression systems, construction equipment, prefab buildings, welding equipment, supply and communications equipment, and electrical generating and transmitting equipment.

But there is a real need for megaproject managers to forecast their equipment requirements well in advance of tendering so that the manufacturing community can be informed about the evolving opportunities.

In addition, there may be a need to develop a timetable for megaproject development in a way that, in addition to creating an orderly flow of capital and exploration of nonrenewable resources, will enable manufacturers sufficient lead time and relatively assured markets to allow them to invest in retooling, R&D, and plant expansions to meet the demands.

We believe that there should be a central agency that is responsible for forecasting equipment requirements and for developing a subcontracting information exchange program that will enable Canadian manufacturers to prepare themselves for the emerging opportunities in megaprojects.

Developing Canadian Sources

One of the most urgent needs facing Canada is the development of Canadian sources of supply for the equipment requirements for megaprojects.

This would involve the retooling and expansion of existing plants and the establishment of new plants in all regions of Canada.

The federal government has an avowed policy of achieving "Canadianization" of the energy industry by 1990 and intends to expend hundreds of millions of dollars to achieve that goal over the next decade. While the goals of

this policy are understandable, we believe that expenditures of whose magnitudes may not be worthwhile for the return benefits to Canadians.

The effective goals of Canadianization could well be achieved by means other than direct public investment in megaprojects per se. What we are suggesting for consideration and discussion is the utilization of those public funds — or part of those funds — in the development of Canadian capabilities in the equipment supply and project engineering side of megaproject development.

Export Promotion

If Canada is able to make improvements in our industrial competitiveness by developing megaproject import substitution and by becoming a world leader in our resource extraction technology and equipment manufacturing, then we will expand our capability to compete in export markets.

The provincial governments should now be examining the potential for joint ventures between private-sector firms in Canada in export markets.

In areas where our industries are complementary, we can enjoy greater success in export markets than we could by operating independently of each other. One of the areas we should be investigating is the sale of Canadian capability into major energy capital projects in other countries: translating the expertise we develop into international sales for our industries.

Manitoba Hydro

At the September conference of first ministers Manitoba's Minister of Finance Donald Craik pointed out that:

"Access to the markets of our sister provinces in western Canada in particular is the key mechanism whereby we share in the growing prosperity of our western region in Canada. On a broader basis we believe that Manitoba industries are capable of growing and competing successfully in markets across Canada if they are permitted to do so freely. That is not the case at the present time. Just as by way of example, our equipment manufacturers in some heavy equipment related to hydro machinery face a 10 per cent barrier to try to bid into the British Columbia market. Ten per cent is really an impossible barrier in a competitive business like that. We have a number of bus manufacturers in Manitoba. In some cases they are not even allowed to bid in the province of Quebec. We have professional associations that act in the case — a good example is in the case of Alberta — it is not the Alberta government but the architects in Alberta who put up a pretty significant barrier. It is very difficult for the professions in that area, architecture, engineering, and so on, to capitalize and gain

from the current economic expansion boom in an easy way that they could have access to otherwise."

Ontario shares these concerns, and is prepared to work actively and co-operatively to achieve greater freedom of access to all Canadian markets for all Canadian firms, in a way that achieves balanced benefits to the various provinces and regions of Canada.

At the August Conference of Provincial Premiers in Winnipeg, Premier Lyon announced his government's intention to source the maximum amount of Canadian equipment on the new \$1.5-billion, 100,000 megawatt Limestone Station, that his government intends to build.

Under the previous government of Manitoba the provincial utility purchased Russian made turbine generating equipment for the Jenpeg Station rather than sourcing from an available Canadian supplier.

Premier Lyon has stressed that it is his government's intention to use the purchasing associated with this new major capital project to stimulate development in Manitoba, in the Western Region of Canada, and in Canada generally. We believe that through the co-operation of other provinces and the federal government, we can identify specific opportunities arising out of the project, and assure balanced economic benefit between the participating provinces and regions of Canada.

Specifically, we believe the Governments of Ontario and Quebec, as the provinces within which most of the Canadian heavy electrical manufacturing industry is located, should co-operate actively with Manitoba in efforts to maximize the direct benefit to Manitoba and Manitoba firms of decisions to purchase Canadian equipment for this project.

Such efforts as Manitoba is undertaking to maximize Canadian content on the Limestone Project should benefit both existing Canadian basic manufacturing enterprises, and the economy of Manitoba.

Canadian Domestic Market Development Agency

The Climate for Co-operation

It is surely time to talk about co-operation among the regions of Canada.

Certainly there are significant differences between the provinces and the federal government on the critical issues of energy pricing, the treatment of energy revenues, energy taxation, and the constitution.

Those differences have reinforced historical suspicions and resentments among the regions of Canada.

They have also done much to erode the basic reservoir of trust and goodwill that is required if we are to hold our country together.

The fact is: those disagreements are not likely to disappear over the next few months. They are based on very real differences between energy-producing provinces on the one hand and energy consuming provinces on the other.

It would be naive to attempt to deny those differences of opinion. Legitimate differences will continue to receive attention and cause strain.

But surely the more important issue is whether we will make any real gains in our efforts to achieve the industrial strength we require to remain internationally competitive as a country.

We have failed in the past to focus on helping each other benefit from whatever historical base we have had.

And because of the fundamental mistrust of Central Canada, Ontario is now suspect in coming to its sister provinces at this time, talking about "working together."

But surely the time has come — and indeed is long overdue — for us to look for the issues that unite us, for the interests we have in common, for the areas where we do agree, or the areas upon which we are capable of developing agreement.

We believe, deeply, that we must do this not as a means of avoiding the confrontations that will sometimes grow out of our differences but as a deliberate and conscious effort to build the kinds of bridges between our economies, our government policies, and the attitudes of our people that will be needed to bring us through those confrontations as a strong and united country.

Canada as we know it represents a conscious decision, made by the founders of the nation and reiterated year after year by governments and by individuals across this country.

We represent a decision to live together and to build social and economic relationships — on an east west basis — among the regions of Canada.

But in recent years the governments in Canada have failed to provide the leadership necessary to build on those traditions.

We have all failed, as provincial governments and as a federal government, to recognize that our greatest strength and our greatest opportunities for the future are with each other.

A Vehicle for Co-operation

If we are to renew our faith in this nation we need a mechanism or a vehicle that

will enable us to build on patterns of co-operation. We need a vehicle that, in the final analysis, will serve as a catalyst to create new jobs in every region of this country and to enhance the quality of life of all Canadians by building interprovincial economic linkages.

We believe that such a vehicle could be a Canadian Domestic Market Development Agency.

Why A Separate Agency

Elected provincial officials normally have little knowledge of the nature of the strategies of other provinces let alone of specific instances where co-operation is possible. Governments can be inward looking, preferring to run their own programs regardless of whatever interprovincial implications they might have.

The federal government, during the past decade, has had self imposed priorities other than the fostering of interprovincial trade and the co-ordination of regional economic development strategies.

The regrettable fact is that if the task of identifying opportunities for co-operation is left to governments, we would generate a great deal of paper but little concrete action.

In addition, it would be difficult for governments to develop agreed upon co-operation initiatives when there may be divisive issues on the same negotiating table.

An independent agency, owned and controlled by all 11 governments, may well be the most appropriate vehicle for achieving real progress on matters concerning economic co-operation, joint ventures, and bilateral and multilateral agreements between provinces.

Objectives

The broad objectives of a Canadian Domestic Market Development Agency would be:

1. to work directly with governments and private-sector firms in fostering interprovincial trade and economic co-operation
2. to play an activist role in efforts to change procurement practices that limit the ability of Canadian suppliers to land orders
3. to work in conjunction with megaproject managers to develop pragmatic programs designed to maximize Canadian sourcing
4. to develop and maintain lists of megaproject equipment requirements and to act as a subcontracting information exchange bureau
5. to identify specific opportunities for specific sales of specific products by specific sellers to specific buyers in Canada
6. to research and report on sectorial analysis of interprovincial trade, to study

and report on trade patterns and to undertake studies of interprovincial trade issues

7. to examine the issue of import replacement and to recommend specific programs for governments to undertake to replace imports with domestically produced goods
8. to examine and report on issues related to national manpower problems, and possible complementary government measures on fiscal and taxation policies
9. to monitor the work of the proposed Council of Research and Technology Centres and to recommend areas for provincial specialization, sub-specialization or co-operation
10. to develop analysis of regional economic development strategies and to recommend actions that enable the provinces to be complementary in their approach
11. to host an annual meeting of Ministers of Economic Development to discuss areas of interprovincial economic co-operation
12. to supply concessionary financing to Canadian firms competing in the domestic market against foreign firms that have concessionary export financing from their own governments to compete in our market
13. to issue an annual report

Structure

The Canadian Domestic Market Development Agency should consist of five main components: a board of directors, a president, a policy analysis section, a program and field officer section, and a financial section.

a) **Board of Directors** — The board of directors of the agency should be composed of former senior business people and government officials who intimately understand and have access to the top people in government and business.

b) **President** — This position should be filled by someone capable of dealing with cabinet ministers, deputies, and CEOs. This should be a high-profile position and the candidate should be expected to make speeches and public appearances.

c) **Policy Analysis Section** — The purpose of this section would be to coordinate research on regional economic development issues, interprovincial trade patterns, national manpower issues, provincial R&D monitoring, and to examine import replacement on a sector-by-sector basis.

d) **Program & Field Officer Section** — This section would serve as a link between megaproject managers and potential manufacturers in Canada, to maintain and publish lists of equipment requirements for megaprojects, to develop programs to promote Canadian sourcing, and to work with provincial

governments, trade associations, and multinationals on import replacement programs.

e) **Financial Section** — This section would provide concessionary financing to Canadian firms competing in the Canadian domestic market against foreign firms that have obtained a competitive advantage by acquiring export financing from their own governments.

We recommend that the total staff requirements of the Canadian Domestic Market Development Agency be limited to 25 people. Half of these should be professional full-time employees of the corporation and half should be seconded from the 11 government partners for periods of not less than one year and not more than two years.

Financing

The financing of the agency should be based on a percentage of the value of each province's interprovincial shipments of manufactured goods to a combined provincial government contribution of \$4 million.

This amount should be matched by the federal government for an initial capitalization of \$8 million on an annual basis.

6

Recommendations

Conclusion

Despite our disagreements, the Provinces of Canada have demonstrated their capacity to co-operate with each other.

Our existing interprovincial trade patterns, our commitment to an import replacement program in the health care sector, the recent Ontario-British Columbia agreement on transit, and the willingness to reopen the dialogue on energy pricing are all indications that we value and place importance on our economic relationships – and hence on our social and political relationships.

But we must, and can, go further. For this reason Ontario submits the following proposals.

Agenda for Decision

We present the following recommendations for discussion, debate, and decision:

1. That the federal government reconvene the federal-provincial procurement committee to work out proposals on provincial procurement policies that are designed to serve both regional and national interests. The recommendation of this committee should be reviewed by provincial and federal ministers of economic development or industry ministers.
2. That ministers of economic development instruct their deputies to work out pragmatic programs for import replacement and pragmatic procurement programming in the areas of communications equipment, pharmaceuticals, education, high-tech office equipment, and pollution abatement.
3. That deputies responsible for economic development be instructed to develop proposals, in conjunction with the private sector, for a series of regional and sectorial trade shows geared to import replacement.
4. That bilateral exchanges of senior civil servants be worked out between deputies of various provinces and that guidelines and goals of such a program be developed.
5. That the federal government work out long-range manpower training programs that fit the regional development aspirations of each province with regard to the announced \$30-million Innovation Centre program. This should be completed.
6. That the provinces, together with the Federal Government create a "Canadian Council of Research and Technology Centres" and that this council in conjunction with representatives from the provincial and federal departments of economic development, be immediately commissioned to review duplication of efforts in research, and the developing capabilities in microelectronics, biotechnology, ocean industries, and fibre optics, and to make recommendations on areas for co-operation, co-ordination, joint ventures and areas for future development.

7. That the federal minister of industry, trade, and commerce develop guide lines on procurement requirements for megaprojects, in consultation with the private sector, and with provincial ministers responsible for industrial development.
8. That the federal government, through the minister of industry, trade and commerce, establish a fully funded program that is designed to encourage the retooling of existing industries and the establishment of new industries that can supply the megaprojects of both eastern and western Canada.
9. That ministers of industry instruct their deputies to seek out possible joint ventures in export markets in industrial sectors that are complementary.
10. That ministers of industry discuss with their respective ministers of health the concept of a CDC operated Pharmaceutical Bulk Purchasing Corporation and that they individually decide whether or not to opt into such a program.
11. That the provinces, together with the Federal Government, agree to the establishment of a Canadian Domestic Market Development Agency and that this agency be directed to:
 - work directly with governments and private sector firms in fostering interprovincial trade and economic co-operation;
 - play an activist role in efforts to change procurement practices that limit the ability of Canadian suppliers to land orders;
 - work in conjunction with megaproject managers to develop pragmatic programs designed to maximize Canadian sourcing;
 - develop and maintain lists of megaproject equipment requirements and to act as a subcontracting information exchange bureau;
 - identify specific opportunities for specific sales of specific products by specific sellers to specific buyers in Canada;
 - research and report on sectoral analysis of interprovincial trade, to study and report on trade patterns and to undertake studies of interprovincial trade issues;
 - examine the issue of import replacement and to recommend specific programs for governments to undertake;
 - examine and report on issues related to national manpower problems, and possible complementary government measures on fiscal and taxation policies;
 - monitor the work of the proposed Council of Research and Technology Centres;
 - develop analysis of regional economic development strategies and to recommend actions that enable provinces to be complementary in their approach;
 - host an annual meeting of federal and provincial ministers of finance and ministers of economic development to discuss areas

of interprovincial economic co-operation;

- supply concessionary financing to Canadian firms competing in the domestic market against foreign firms that have concessionary expert financing from their own governments to compete in our market; and

- issue an annual report.

12. That the governments of Canada agree to establish a board of directors for a Canadian Domestic Market Development Agency to be appointed by all 11 government participants and that we authorize the establishment of an Office of the President and three operating branches of the corporation.

13. And finally, that we agree to establish a funding level of the agency to an initial level of \$8 million per year.

